DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 06/20/2012
POSITION: Oppose

BILL NUMBER: AB 1526
AUTHOR: Monning, William

BILL SUMMARY: California Major Risk Medical Insurance Program.

This bill would expand eligibility for the Major Risk Medical Insurance Program (MRMIP) by adding that a letter from a health care provider certifying the existence of a pre-existing condition could be used to establish MRMIP eligibility. This bill would also eliminate both the program's annual benefit cap of $75,000 and lifetime benefit cap of $750,000, and would prohibit any costs attributable to the elimination of the annual and lifetime benefit caps from being funded through subscriber premium increases. This bill would also establish the Major Risk Medical Insurance Reconciliation Fund and require remittances from health plans received by MRMIP on or after January 1, 2013 as a result of reconciliation based on the actual claim costs of subscribers for prior fiscal years to be deposited in the fund.

FISCAL SUMMARY

According to PricewaterhouseCoopers, MRMIB's consulting actuary, the annual cost of removing the lifetime and annual benefit limits is estimated to be $15.6 million to $16.0 million assuming an annual per capita subsidy increase of $2,360 to $2,430, a maximum enrollment of 6,600, and a 20 percent increase in claims costs due to removal of the benefit caps.

To pay for elimination of the benefits cap, MRMIB proposes to use reconciliation payments from plans received when the amount paid to plans exceed the actual claims cost. These reconciliation payments are treated as offsets against Major Risk Medical Insurance Fund (MRMIF) expenditures, so if reconciliation payments exceed the cost of this bill, the proposed 2012-13 appropriation will not need to be increased.

The Proposition 99 tobacco tax is the sole source of revenue to the MRMIF. However, this is a declining revenue source due to reduced tobacco use. If MRMIP required more funding, Proposition 99 revenue available for other state programs would decrease, curtailing Proposition 99-funded programs or increasing General Fund costs. As such, should reconciliation payments be insufficient to cover the increased costs associated with elimination of the benefits cap, this bill would create pressure on the General Fund.

While establishing the Major Risk Medical Insurance Reconciliation Fund could improve the transparency of MRMIP's financial structure, Finance notes that monies in the fund would be available for any authorized purpose upon appropriation by the Legislature, in contrast to the MRMIF, which restricts use of monies to cover program expenses.

SUMMARY OF CHANGES

Amendments to this bill since our analysis of the original version include the following amendments which do not change our position:

- Establishment of the Major Risk Medical Insurance Reconciliation Fund.

Analyst/Principal (0562) A.Bazos	Date	Program Budget Manager Ken DaRosa	Date
Department Deputy Director			Date
Governor's Office:	By:	Date:	Position Approved Position Disapproved

SUMMARY OF CHANGES (continued)

- Requirement that remittances from health plans received by MRMIP on or after January 1, 2013 as a result of reconciliation based on the actual claim costs of subscribers for prior fiscal years, would be deposited in the Reconciliation Fund.

COMMENTS

The Department of Finance opposes this bill for the following reasons:

- This bill would have limited benefit relating to the removal of the annual and lifetime benefits caps. This bill would be effective January 1, 2013. However, MRMIP enrollees will become eligible for commercial coverage through the California Health Benefits Exchange (Exchange) effective January 1, 2014.
- Actual cost reconciliation remittances from plans may be insufficient to cover costs. Information sufficient to accurately project the amount of remittances available to fund the cap is not available, making completion of detailed analysis of the ability of such funds to cover the costs of this bill difficult.
- If plan remittances are insufficient to cover the increased costs associated with this bill, additional pressures on limited state resources could be created since this bill prohibits premium increases to fund the elimination of the annual and lifetime benefit caps, requiring them to be funded almost solely by the Proposition 99 tobacco tax, a declining revenue source.
- MRMIB cites the need to maintain state costs of $31.8 million for MRMIP, due to a maintenance of effort (MOE) agreement with the federal government, as a reason for this bill. However, MRMIP enrollment is declining due to individuals choosing the less expensive Pre-Existing Condition Insurance Program (PCIP) plan. An alternative to this bill would be to decrease premiums paid by subscribers, which would maintain state costs and assist in maintaining the MOE.
- While establishing the Major Risk Medical Insurance Reconciliation Fund could improve the transparency of MRMIP's financial structure, monies in the fund would be available for any authorized purpose upon appropriation by the Legislature rather than restricted to covering program expenses.

ANALYSIS

1. Programmatic Analysis

   Since 1991, MRMIP has provided access to health insurance for individuals who are denied coverage, or offered excessive premiums, due to a pre-existing medical condition. Enrollees pay premiums based on age, location, the health plan they choose, and number of insured dependents (dependent coverage is available under MRMIP) which provide approximately 60 percent of program funding. Remaining funding for MRMIP is provided primarily by the Proposition 99 tobacco tax. MRMIB is required to administer MRMIP within the amount appropriated by the state budget.

   The federally-funded PCIP is a high-risk insurance pool for individuals with pre-existing conditions that became operational in October 2010. Authorized by federal health care reform, this temporary program will assist in the transition of individuals to coverage in the Exchange. PCIP will cease to operate when the Exchange becomes operational in January 2014. Like MRMIP, individuals participating in the program pay premiums based on age and location. However, premiums paid by PCIP subscribers are substantially lower due to a significant federal subsidy. MRMIP remains a coverage option for individuals not able to meet PCIP eligibility requirements, including United States

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citizenship and no health coverage in a six-month period prior to application to PCIP. It is anticipated that the MRMIP caseload will also transition to coverage through the Exchange.

Although both programs serve individuals with pre-existing conditions, there are several key differences between the programs in terms of both eligibility requirements and benefits. MRMIP requires either a denial letter or an offer of coverage with a premium higher than the premium amount the individual would pay under MRMIP from a health plan or insurer as a condition of coverage within the last 12 months. PCIP requires a letter from a licensed health care provider dated within the last 12 months stating the individual has a medical condition, disability, or illness and been without coverage for six months. MRMIB states that the MRMIP requirement can lead to unnecessary delays in the start of coverage. This bill would conform MRMIP to PCIP by allowing a letter from a licensed health care provider within the last 12 months as documentation of a pre existing condition, but would not add the restriction that the individual be without coverage for six months.

Since 1999, an annual benefit limit of $75,000 and a lifetime benefit limit of $750,000 have been in place for MRMIP. The annual limit was initially adopted to be a cost saving measure intended to maximize enrollment. According to MRMIB, less than one percent of subscribers reach the annual or lifetime benefit limit each year. PCIP does not have annual or lifetime benefit limits, consistent with provisions of federal health care reform that eliminates annual and lifetime benefit limits for all commercial health coverage.

Federal government approval of PCIP established a maintenance of effort (MOE) requirement of $31.8 million for the MRMIP, which was the amount of Proposition 99 funding expended in the fiscal year (2009-10). This MOE requirement is intended to prevent MRMIP program costs from being shifted to PCIP. At the same time, MRMIP has experienced declining enrollment. In October 2010, the month PCIP became operational, 7,006 individuals were enrolled in the program. As of March 1, 2012, enrollment had decreased to 6,110, well below the current enrollment cap of 8,000. According to MRMIB, the declining enrollment and resulting lower program costs make it difficult to meet the PCIP-related MOE.

By eliminating the annual and lifetime benefits limit, this bill would (1) more closely align the MRMIP benefits package with that of PCIP and (2) increase program expenditures to ensure that the federal MOEs are met. It should be noted that an alternative to maintaining MOE funding would be to decrease MRMIP premiums paid by subscribers. Decreasing premiums would increase costs and assist in maintaining the $31.8 million MOE requirement.

In addition, it should be noted that the 2012-13 Governor's Budget proposes to eliminate MRMIB and move MRMIP and all other programs administered by MRMIB to the Department of Health Care Services effective July 1, 2013. It is anticipated that existing regulations for MRMIB's programs will continue to be in force even after it is eliminated.

2. Fiscal Analysis

This bill would expand eligibility for the MRMIP by adding that a letter from a health care provider certifying the existence of a pre-existing condition could be used to establish MRMIP eligibility. However, this expansion of eligibility would likely not lead to higher program costs due to an increase in enrollment for the following two reasons. First, although individuals eligible for higher-cost commercial coverage may choose to apply to MRMIP, they would already be eligible since they could document an offer of coverage with a premium higher than the premium amount the individual

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would pay under MRMIP. Second, individuals with pre-existing conditions who are currently uninsured would likely choose to enroll in PCIP instead of MRMIP due to the substantially lower premiums.

According to PricewaterhouseCoopers, MRMIB's consulting actuary, the annual cost of removing the lifetime and annual benefit limits is estimated to be $15.6-$16.0 million assuming an annual per capita subsidy increase of $2,360-$2,430, a maximum enrollment of 6,600, and a 20 percent increase in claims costs due to removal of the benefit caps.

To pay for elimination of the benefits cap, MRMIB proposes to use funds realized through the ongoing process of claims-based reconciliation of program costs with participating health care plans. Under MRMIP, plans are paid a monthly rate similar to a per member per month payment under a capitated financing model based on a medical loss ratio. Reconciliation occurs when annual actual claims costs less offsetting premiums are compared to payments to the plans. If the amount of the payments to plans exceed the actual claims cost less offsetting premiums, the plans are required to remit the amount in excess of actual costs to MRMIB. If the amount of the payments to plans is less than the actual claims cost less offsetting premiums, MRMIB is required to make a payment to the the plans to reimburse for the remainder of actual claims costs. Historically, reconciliation has resulted in plans remitting funds to MRMIB. The funds remitted offset program costs and have contributed to a carryforward of significant fund balances in MRMIB's Major Risk Medical Insurance Fund (MRMIF). MRMIB estimates that by this bill's effective date of January 1, 2013, reconciliation will have been completed through 2008-09. Based on this estimate, MRMIB states that there will be sufficient total remittances from plans related to reconciliation of claims costs to fund elimination of the benefits cap, though MRMIB has cited confidentiality requirements governing contracts with participating plans as preventing them from publicly sharing detailed projections of the remittances. Since remittances are treated as offsets against MRMIF expenditures and MRMIB has not built in significant remittance payments into its 2012-13 expenditure projections, this bill would not require an increase to expenditures shown in the Governor's Budget.

Although concern about possible MRMIP expenditure MOE violations relating to the federal contract to operate PCIP are noted, an exemption to the expenditure MOE should be explored with the federal government before enacting policy that would permanently increase program costs in large part to simply meet the MOE. Finance notes that the decreased MRMIP expenditures are related to both declining caseload and program claims reconciliation remittances offsetting expenditures and not shifting of MRMIP program costs to PCIP that the MOE is intended to prevent.

Amendments to this bill subsequent to our last analysis establishes the Major Risk Medical Insurance Reconciliation Fund and requires remittances from health plans received by MRMIP on or after January 1, 2013 as a result of reconciliation based on the actual claim costs of subscribers for prior fiscal years to be deposited in the Reconciliation Fund. While establishing such a fund could improve the transparency of MRMIP's financial structure, Finance notes that monies in the fund would be available for any authorized purpose upon appropriation by the Legislature, in contrast to the existing MRMIF, which restricts use of monies to cover program expenses.

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BILL ANALYSIS--(CONTINUED) **Form DF-43**

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Monning, William	06/20/2012	AB 1526

Code/Department Agency or Revenue Type	SOLA CORV	PROP 98	FC	(Fiscal Impact by Fiscal Year) (Dollars in Thousands) 2012-2013	FC	2013-2014	FC	2014-2015	Fund Code
4280/Managed Risk	LA	No	C	7,700-8,000	C	15,400-16,000	A	--	0313

Fund Code	Title
0313	Major Risk Medical Insurance Fund